

OECD working paper did not classify shares as privately held

From Mr Sean Dougherty, Mr Richard Herd and Mr He Ping.

Sir, There is always lively debate when it comes to the topic of China, and the article by Huang Yasheng of MIT ("China is no haven for entrepreneurs", February 2) was no exception. However, there was an important distortion in the article regarding our working paper, which was prepared as background to the Organisation for Economic Co-operation and Development Economic Survey of China (September 2005).

Prof Huang asserts – mistakenly – that we incorrectly classify the ownership of legal person shares, treating them as entirely privately controlled, which "anyone with even basic knowledge of China would recognise as quintessentially state-owned". Yet, if he had referred to Table 3 in the working paper or page 126 of the survey, he would have noticed that we in fact do classify legal person shares controlled by the state as state-owned.

Companies controlled by such shareholders were classified by us as "indirectly" state-controlled. In the case of shareholding corporations (a legal form referring to registered companies above a designated size), we show that indirectly state-controlled companies produced 47.4 per cent of the value added of all shareholding corporations.

Indeed, it is these corporations that are the quintessentially state-owned companies to which he refers in his article. But of course, they only represent 7 per cent of industrial

sector value added, despite their prominence.

We were able to determine whether legal person shares were state-controlled through close co-operation with the Chinese National Bureau of Statistics in the analysis of more than 250,000 industrial company records. A full explanation of the analysis is available in the final version of the working paper, forthcoming as a refereed journal article in Volume 18 (2007), Issue 3 of the *China Economic Review* (Elsevier Science Publishers).

On the more fundamental issue of the overall share of the private sector in China's economy, we would also like to point out that new information from the economic census suggests that this share is even higher than the estimate given in the OECD economic survey, due to the large size of the informal sector, which was not previously covered by the national accounts, and whose existence is perhaps due to some of the reasons that Prof Huang states.

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